

**CONSUMER COUNSEL
FINANCIAL - COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 2011**

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

November 2011

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the financial audit of the Montana Consumer Counsel for the two fiscal years ended June 30, 2011.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, PC under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Counsel's written response to the report is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

11C-10

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**ELECTED AND APPOINTED OFFICIALS
LEGISLATIVE CONSUMER COMMITTEE**

2010-2011

SENATORS

Mitch Tropila (Appointed 5/11)

Terry Murphy (Appointed 3/07, Re-appointed 5/11)

REPRESENTATIVES

Pat Noonan (Appointed 8/09, Re-appointed 5/11)

Mike Cuffe (Appointed 5/11)

Consumer Counsel

Robert A. Nelson



**Junkermier • Clark
Campanella • Stevens • P.C.**

Montana Club Building
P. O. Box 1164
Helena, Montana 59624
Phone (406) 442-6901
FAX (406) 442-9690
www.jccscpa.com

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Consumer Counsel (the Counsel) for the fiscal years ended June 30, 2011 and 2010, as listed in the table of contents. These financial schedules are the responsibility of the Counsel's management. Our responsibility is to express an opinion on these financial schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Consumer Counsel's financial schedules are prepared in accordance with state accounting policy, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Consumer Counsel for the fiscal years ended June 30, 2011 and 2010, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the information and use of the audit committee, management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2011 on our consideration of the Consumer Counsel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
October 31, 2011

CONSUMER COUNSEL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>
FUND BALANCE: July 1, 2009	\$ <u>1,130,989</u>
ADDITIONS	
Nonbudgeted Revenues & Transfers-In	37
Direct Entries to Fund Balance	<u>690,871</u>
Total Additions	<u>690,907</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	939,249
Nonbudgeted Expenditures & Transfers-Out	2,922
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,000)</u>
Total Reductions	<u>940,171</u>
FUND BALANCE: June 30, 2010	\$ <u><u>881,724</u></u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Taxes	\$ <u>37</u>	\$ <u>37</u>
Total Revenues & Transfers-In	37	37
Less: Nonbudgeted Revenues & Transfers-In	37	37
Prior Year Revenues & Transfers-In Adjustments	<u>0</u>	<u>0</u>
Actual Budgeted Revenues & Transfers-In	0	0
Estimated Revenues & Transfers-In	<u>0</u>	<u>0</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FOR ALL FUNDS

	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 368,865	\$ 368,865
Employee Benefits	84,800	84,800
Total	<u>453,665</u>	<u>453,665</u>
Operating Expenses		
Other Services	369,865	369,865
Supplies & Materials	14,999	14,999
Communications	10,011	10,011
Travel	21,732	21,732
Rent	23,067	23,067
Repair & Maintenance	13,892	13,892
Other Expenses	32,941	32,941
Total	<u>486,506</u>	<u>486,506</u>
Total Expenditures & Transfers-Out	<u>\$ 940,171</u>	<u>\$ 940,171</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 940,171	\$ 940,171
Total Expenditures & Transfers-Out	940,171	940,171
Less: Nonbudgeted Expenditures & Transfers-Out	2,922	2,922
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,000)</u>	<u>(2,000)</u>
Actual Budgeted Expenditures & Transfers-Out	939,249	939,249
Budget Authority	1,542,604	1,542,604
Unspent Budget Authority	<u>\$ 603,355</u>	<u>\$ 603,355</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 603,355	\$ 603,355
Unspent Budget Authority	<u>\$ 603,355</u>	<u>\$ 603,355</u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FOR ALL FUNDS

	State Special Revenue Fund
FUND BALANCE: July 1, 2010	\$ <u>881,724</u>
ADDITIONS	
Nonbudgeted Revenues & Transfers-In	31
Direct Entries to Fund Balance	<u>973,346</u>
Total Additions	<u>973,377</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,110,176
Nonbudgeted Expenditures & Transfers-Out	<u>3,320</u>
Total Reductions	<u>1,113,496</u>
FUND BALANCE: June 30, 2011	\$ <u><u>741,606</u></u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Taxes	\$ 31	\$ 31
Total Revenues & Transfers-In	31	31
Less: Nonbudgeted Revenues & Transfers-In	31	31
Prior Year Revenues & Transfers-In Adjustments	0	0
Actual Budgeted Revenues & Transfers-In	0	0
Estimated Revenues & Transfers-In	0	0
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 0
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 0

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FOR ALL FUNDS

	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 347,484	\$ 347,484
Employee Benefits	85,120	85,120
Total	<u>432,604</u>	<u>432,604</u>
Operating Expenses		
Other Services	589,488	589,488
Supplies & Materials	7,338	7,338
Communications	9,581	9,581
Travel	16,594	16,594
Rent	22,155	22,155
Repair & Maintenance	47	47
Other Expenses	35,688	35,688
Total	<u>680,892</u>	<u>680,892</u>
Total Expenditures & Transfers-Out	<u>\$ 1,113,496</u>	<u>\$ 1,113,496</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 1,113,496	\$ 1,113,496
Total Expenditures & Transfers-Out	1,113,496	1,113,496
Less: Nonbudgeted Expenditures & Transfers-Out	3,320	3,320
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	<u>1,110,176</u>	<u>1,110,176</u>
Budget Authority	<u>1,617,256</u>	<u>1,617,256</u>
Unspent Budget Authority	<u>\$ 507,080</u>	<u>\$ 507,080</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 507,080	\$ 507,080
Unspent Budget Authority	<u>\$ 507,080</u>	<u>\$ 507,080</u>

See Notes to the Financial Schedules

THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Consumer Counsel uses the modified accrual basis of accounting which is described in the Montana Operations Manual, such basis differs from generally accepted accounting principles in the following material respects:

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred. The following items are also considered valid obligations under state accounting policy:

If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

The anticipated cost of equipment is expensed in the fiscal year in which it is budgeted.

Goods ordered, but not received as of the end of the fiscal year may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Financial Schedule Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Accounting, Budgeting and Human Resource System (SABHRS) without adjustment.

Accounts are organized in funds according to state law. The Consumer Counsel uses the following funds:

Governmental Funds:

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

The State provides funding for the Counsel through revenue-sharing.

THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended June 30, 2010, the Counsel implemented the provisions GASB Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is found to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in further detail later in footnote 1.

Fund Balances

As discussed above in footnote 1, the Counsel has implemented Governmental Accounting Standards Board Statement 54. As a result, the classifications for fund balance now used for governmental fund are reported in two general classifications, nonspendable and spendable. As of June 30, 2011 and 2010, fund balances of the governmental special revenue funds are classified as follows:

Nonspendable — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Counsel had no nonspendable fund balances as of June 30, 2011 and 2010.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by state legislation and appropriated to the Consumer Counsel. The Counsel had no committed fund balances as of June 30, 2011 and 2010.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Counsel had no assigned fund balances as of June 30, 2011 and 2010.

Unassigned — all other spendable amounts. The Counsel had no unassigned fund balances as of June 30, 2011 and 2010.

When both restricted and unrestricted resources are available in a fund, the assumed order of spending is restricted first, next committed, next assigned, and finally unassigned.

THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of June 30, 2011 and 2010 , fund balances are composed of the following:

	<u>2011</u>	<u>2010</u>
Restricted:		
Fund Balance	<u>741,606</u>	<u>881,724</u>
	<u>\$ 741,606</u>	<u>\$ 881,724</u>

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Consumer Counsel. Expenditures for termination pay are currently absorbed in the annual operational costs of the Counsel. At June 30, 2011 and 2010, the Counsel had year-end balances for compensated absences of \$106,064 and \$112,031, respectively.

2. PENSION PLAN

Plan Description

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State legislature.

Consumer Counsel had 4 employees participating in the plan during the years ended June 30, 2011 and 2010.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

100 North Park Avenue Suite 200, P.O. Box 200131, Helena, MT 59620-0131

THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2011

2. PENSION PLAN (continued)

Funding Policy

Contribution rates for the plan are required and determined by State law. The PERS rates for employees and employers expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State of Montana</u>	<u>Total</u>
2011	7.070%	6.9%	.1%	14.07%
2010	7.070%	6.9%	.1%	14.07%
2009	6.935%	6.9%	.1%	13.94%

The amounts contributed to the plan during the years ended June 30, 2011 and 2010, were equal to the required contribution. The amount contributed by both the Counsel and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>Employer Contributions</u>	<u>Employee Contributions</u>
2011	\$ 20,357	\$ 20,208
2010	\$ 20,819	\$ 20,712

3. OPERATING LEASE

The Consumer Counsel entered into a lease agreement for office space on December 1, 1997 and terminating on November 30, 2001. This lease was renewed every two years. The current lease agreement began on May 1, 2010 and terminates on April 30, 2013. Rent is currently \$1,846 per month and rent is increased annually on the anniversary date of the lease.

Future minimum lease payments for fiscal years subsequent to 2011 are as follows:

Year Ending June 30,	
2012	23,313
2013	<u>19,250</u>
	<u>\$ 42,563</u>

Total rent expense was \$21,155 and \$23,067 for the years ending 2011 and 2010, respectively.

THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2011

4. BUDGET

The budget for each year included a contingency appropriation of \$250,000 for unanticipated cases.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2011, the date on which the financial statements were available to be issued.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Consumer Counsel, as of and for the fiscal years ended June 30, 2011 and 2010, and have issued our report thereon dated October 31, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Consumer Counsel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Consumer Counsel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consumer Counsel's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Consumer Counsel's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditors' Report on Internal Control and Compliance
Page 2 of 2

This report is intended solely for the information and use of management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
October 31, 2011

Montana Consumer Counsel



Robert A. Nelson
Consumer Counsel

Frank E. Buckley, *Rate Analyst*
Lawrence P. Nordell, *Economist*
Mary Wright, *Attorney*
Paul Schulz, *Rate Analyst*
Heather Voeller, *Secretary*

Telephone: (406) 444-2771
Fax No: (406) 444-2760
111 North Last Chance Gulch
Suite 1B
PO Box 201703
Helena, Montana 59620-1703

October 31, 2011

Junkermier, Clark, Campanella, Stevens, P.C.
Certified Public Accountants
P.O. Box 1164
Helena, Montana 59624

RE: Consumer Counsel Audit Response

Dear Junkermier, Clark, Campanella, Stevens, P.C.

We have reviewed the draft audit report for the Consumer Counsel. We are pleased that the Counsel meets accounting standards and that no recommendations for improvement were necessary.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert A. Nelson".

Robert A. Nelson
Montana Consumer Counsel



**Junkermier • Clark
Campanella • Stevens • P.C.**

Certified Public Accountants and Business Advisors

Montana Club Building
P. O. Box 1164
Helena, Montana 59624
Phone (406) 442-6901
FAX (406) 442-9690
www.jccsca.com

October 31, 2011

To the Legislative Audit Committee:

We have audited the financial schedules of the Consumer Counsel for the years ended June 30, 2011, and 2010, and have issued our report thereon dated October 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 28, 2011. Professional standards also require that we communicate to you the following information related to our audit. Professional standards require that we provide you with the following information related to our audits.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Consumer Counsel are described in Note 1 to the financial schedules. No new accounting policies were adopted and the application of existing policies was not changed during the years ended June 30, 2011 and 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial schedules in the proper period.

Accounting estimates are an integral part of the financial schedules prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial schedules and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial schedules.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Legislature and management of the Consumer Counsel, and is not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana